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Ed Dersham, Chairman
Alaska Department of Fish & Game
Board of Fisheries
P.O. Box 25526
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Subject: Staff Report – Alaska Salmon Industry

Since the close of the 2001 salmon season, several meetings, committees and forums have been held regarding the economic conditions of the Alaska salmon industry. Due to a variety of factors, the value of Alaska salmon continues to fall. Economic upheaval in a number of Alaska regions manifested itself through labor unrest leading to strikes and dismal prices leading to economic disasters. Future survival of the salmon industry under the status quo appears bleak. The industry must undergo a number of changes to maximize the value of our wild Alaska salmon in the seafood market.

It is likely the Board of Fisheries is on the verge of reviewing many proposals aimed at reducing harvest capacity. In fulfilling its role as policy body for salmon resource development (see AS 16.05.251(a)(12) and 16.05.251(e)(5 & 6))¹, the Board is an integral part of any reform effort. We strongly encourage the Board to carefully review regional proposals from industry. While changes to fisheries may have economic impacts beyond intended participants, it is likely many of those impacts can be mitigated through appropriate safeguards. Similarly, certain action by the Board may require statutory change. We would encourage the Board to conduct appropriate reviews of these proposals and serve to facilitate and promote changes that will assist this industry.

¹ Sec. 16.05.251. Regulations of the Board of Fisheries.

(a) The Board of Fisheries may adopt regulations it considers advisable in accordance with AS 44.62 (Administrative Procedure Act) for

....

(12) regulating commercial, sport, guided sport, subsistence, and personal use fishing as needed for the conservation, development, and utilization of fisheries;

...

(e) The Board of Fisheries may allocate fishery resources among personal use, sport, guided sport, and commercial fisheries. The board shall adopt criteria for the allocation of fishery resources and shall use the criteria as appropriate to particular allocation decisions. The criteria may include factors such as

(5) the importance of each fishery to the economy of the state;

(6) the importance of each fishery to the economy of the region and local area in which the fishery is located;

Declining Value of Alaska Salmon Industry

The price for all salmon species declined significantly in the past decade. Figure 1. One of the more striking features of this price decline pertains to the changing elasticity of price. Until 1998, salmon was price elastic, meaning that fluctuation in supply changed price conversely. However, as farmed salmon production outpaced Alaska wild salmon production and began to move substantial product in forms beyond the capacity of Alaska's industry, the price of Alaska salmon became inelastic. Alaska salmon has become an imperfect substitute, falling to the bottom rung of a commodity pricing regime. The Alaska salmon industry has neither the supply nor market demand to dictate price. The industry has become a price taker, and that price is falling.

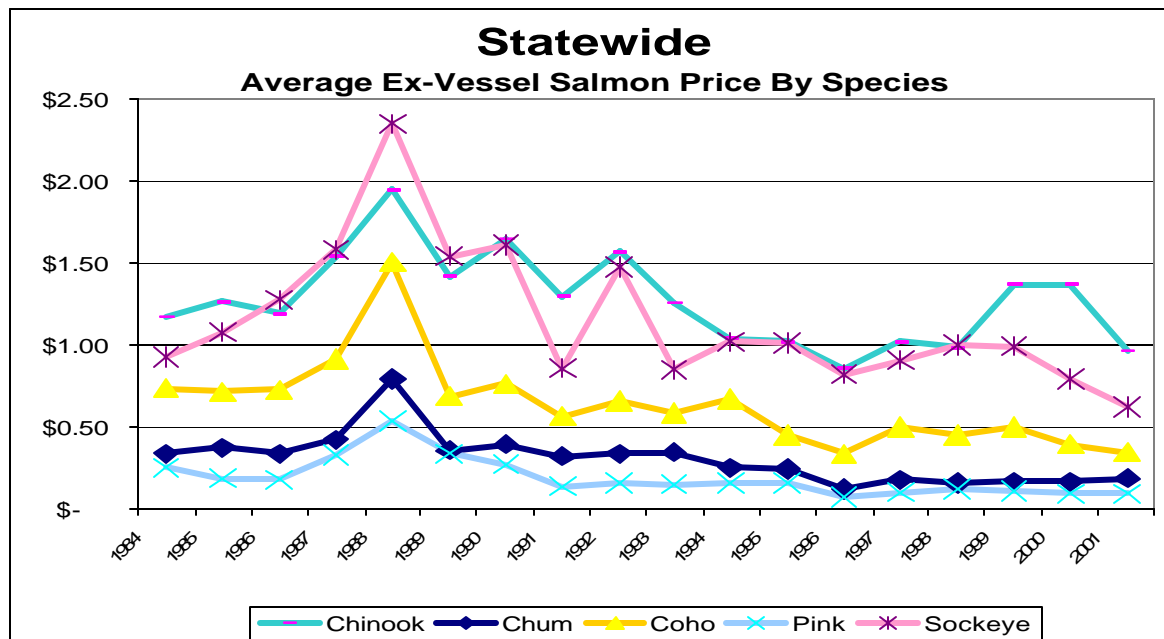


Figure 1

Overview of Alaska Salmon Markets

The Alaska salmon industry sells a significant portion of its product to export markets, particularly Japan, Canada and the United Kingdom. The main species to these markets is sockeye salmon. Sockeye is the second most abundant species of all Alaska salmon and, until 2001, the greatest revenue producer by far. Figure 2 highlights the vast difference in earnings of sockeye compared to the other

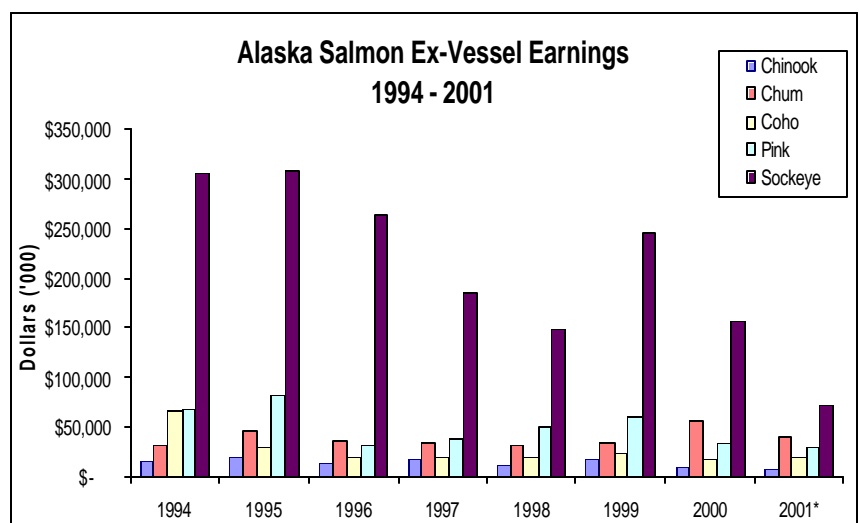


Figure 2 *2001 figures projected

species. It also demonstrates the declining value of sockeye.

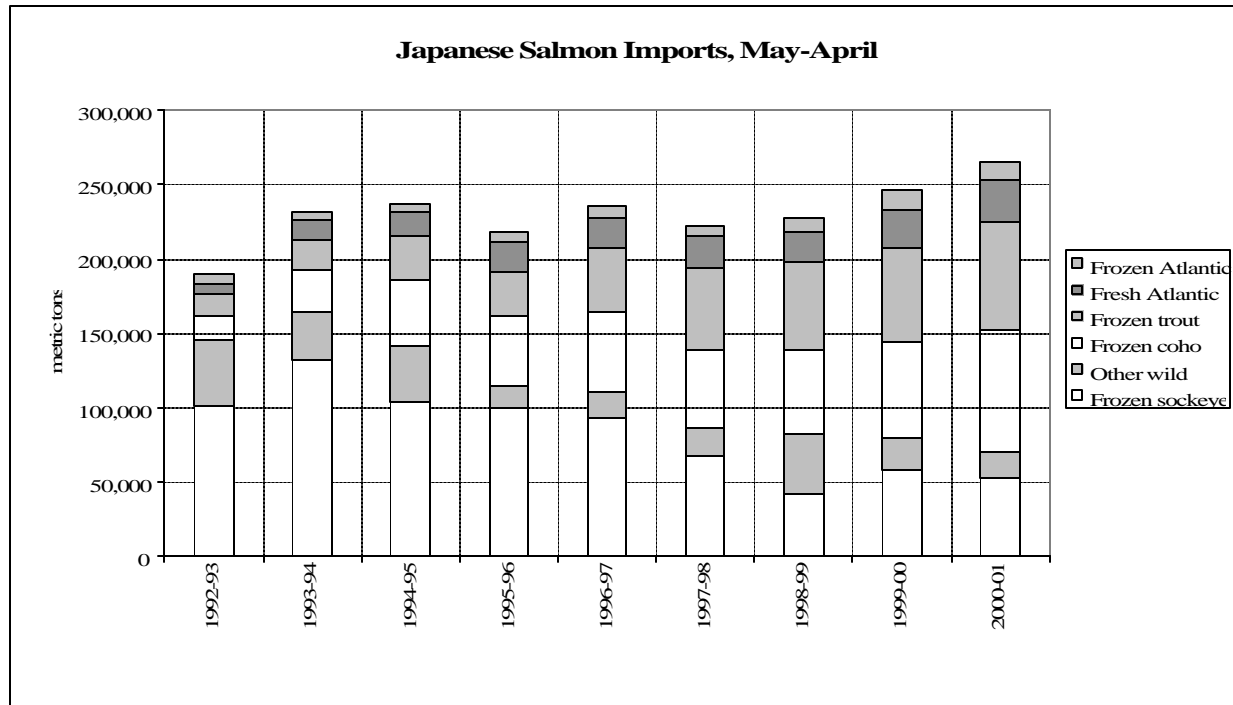


Figure 3. The bottom bar is Alaska sockeye salmon. It has fallen from 100,000 metric tons in the 1992 –93 selling year to 50,000 in 2000-2001. All other Alaska salmon fits into the category “Other wild” just above. The rest of the salmon or trout shown is farmed salmon. Data from Institute of Social and Economic Research.

For many years, sockeye production was mainly frozen head and gut or dressed for the Japanese market, or in the can for the Canadian or European market. With the blossoming of farmed salmon in the 1990s, and particularly with the development of the Chilean industry, farmed salmon imports into Japan and Europe grew at incredible rates. In Japan, market share of the Alaska salmon declined due to low price farmed salmon imports in Japan spurred by the collapse of the Japanese economy. Figure 3 reviews the imports of all salmon and trout into Japan from 1992 through 2000, and demonstrates that despite increased consumption of salmon and trout, sockeye purchases fell more than 50%. This information is supported by export data provided on Figure 4, which compares sockeye

head and gut exports against total sockeye harvests. From 1994 through 2000, the percentage of sockeye harvested that went to the Japanese market declined from 61% to 38%, despite generally decreasing harvests.

With dwindling Japanese markets,

Year	Total Sockeye Harvests (Pounds)	Total Sockeye Frozen/Fresh Exports (Pounds)*	Percent of Sockeye Frozen/Fresh Export of Total Sockeye Harvests
1994	291,900,000	179,027,041	61%
1995	350,490,000	191,130,189	55%
1996	310,450,000	166,881,256	54%
1997	188,560,000	108,014,412	57%
1998	127,950,000	59,166,845	46%
1999	247,410,000	93,988,326	38%
2000	206,350,000	79,385,474	38%

*Japan market in excess of 90% of this total each year.

Figure 4 highlights the decline in the Japanese market for Alaska sockeye.

traditional processors shifted production into the can market. Unfortunately, demand for canned sockeye does not appear to be growing, creating a glut of this product form on the market. Increased inventories of frozen and canned sockeye lead to increased costs for the processors. With increased inventory costs, along with declining orders of salmon and/or having to match the price of farmed salmon, the value to harvesters fell considerably. To varying degrees, other salmon species are finding dwindling market space. Processor reports indicate coho and chum salmon lost significant ground to farmed salmon in recent years, with none worse than 2001.

Market Factors Affecting Alaska Salmon

There are a number of factors that led to this decline. The most prominent and daunting factor is the increase in farmed salmon in the world markets. Other reasons include:

- **Retailer consolidation:** Retail grocery stores are consolidating across the United States and other developed nations. This consolidation creates greater negotiating strength by the retailers. This may explain why prices to consumers drop only slightly, while prices to harvesters and processors fall to greater depths.
- **Japanese/Global recession:** Japan, in a prolonged economic slowdown, is now joined by the rest of the world.
- **Strong dollar:** Despite the recent economic recession, the US dollar remains a very strong currency relative to seafood trading nations.

Aside from these factors, the huge increase of farmed salmon in the world market is the major cause of the Alaska salmon's declining value. The volume of Chilean imports into the US increased nearly every year since 1994. Figure 4. Not only has the amount of imports

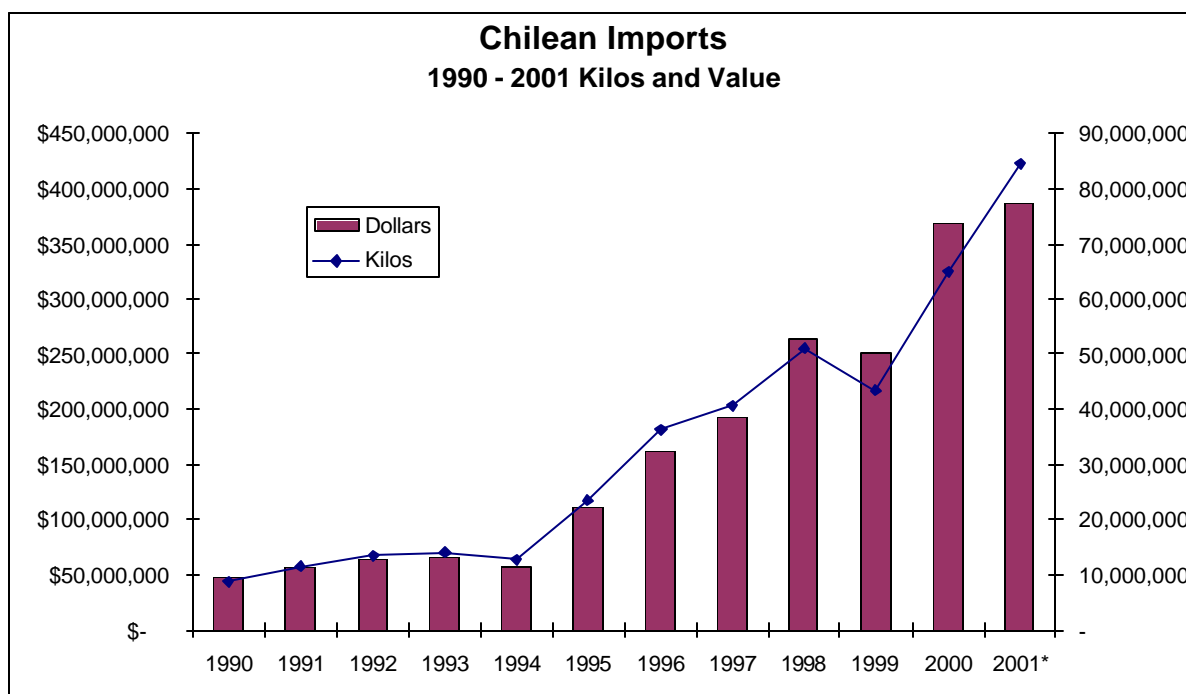


Figure 4

increased, but the product composition changed from a dressed fish to fillet portions. Figure 5. In 1991, the percentage of Chilean farmed salmon imports in the dressed form was essentially 100%. As of 2000, that number fell to 9%. While the percentage of fillet into the country was 4% in 1994, it is now over 90%. Fillets are entirely edible products and approximately 45% of the whole fish. If the numbers for fillets are converted into a dressed fish equivalent, the rate of imports is even more dramatic.

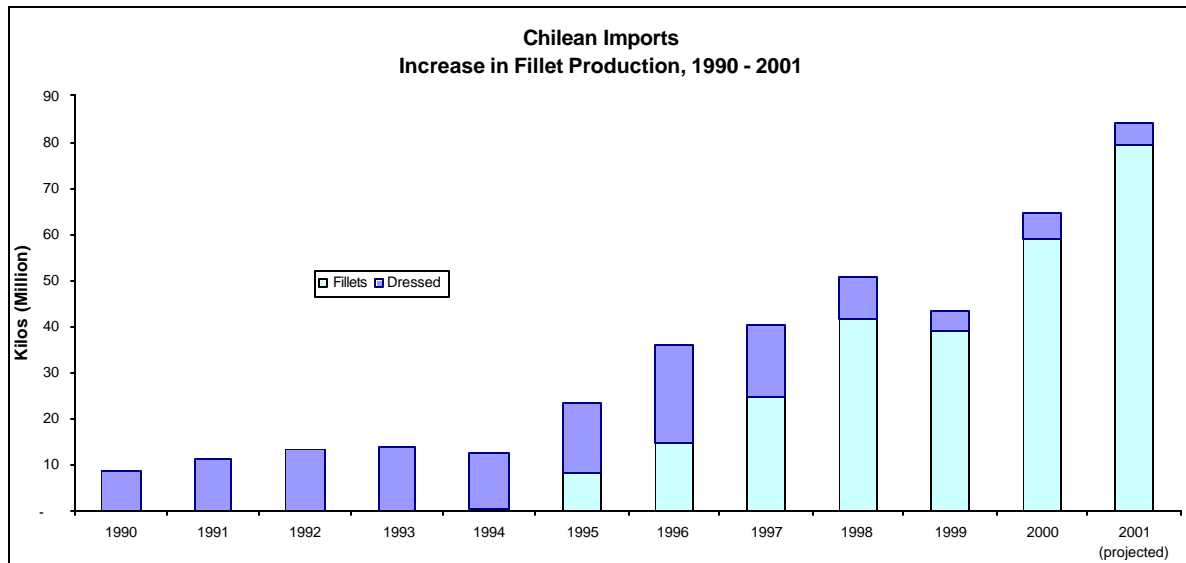


Figure 5

With the supply of imports outpacing demand, the price commanded by Chilean imports has dropped significantly. According to the Uner-Barry *Seafood Price-Current*, on December 2001, the FOB Seattle price for a Chilean farmed raised, Atlantic salmon fresh, skin-on, pin bone out fillet was \$1.90. In contrast, in December 2000, the price was \$2.80. Figure 6.

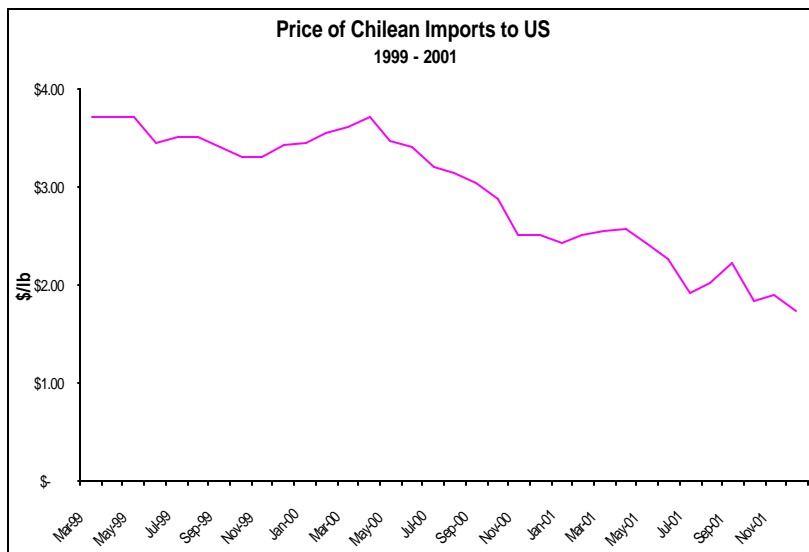


Figure 5

According to other reports, Chilean salmon and trout exports to all countries grew by 53% in the 1st Quarter 2001 over 1st Quarter 2000. However, the price gained by those exports dropped significantly at the same time, with export value increasing just 3%. Expanded sales to Europe (by approximately 38 percent) and to the U.S. market (by approximately 24 percent) accounted for Chile's increase in these first quarter export numbers.

The volume-related price drop of Chilean fillets in the U.S.

marketplace has preempted profitable and viable participation by Alaska salmon producers of consumer-ready fresh fillets. The timing of salmon imports, particularly imports from Chile, has emerged as an issue of concern for the Alaska salmon industry. During the last two years, an “import spike” has developed during third quarter. This is of concern to Alaska producers because third quarter is the only quarter during which large quantities of Alaska salmon are available as fresh product. Since timing of wild salmon harvest is beyond the control of producers and fresh salmon has an absolute maximum shelf life of 12 days, altering the date of entry to the market is simply not an option for wild producers.

The Alaska salmon industry is committed to competing with Chilean and other sources of salmon supply. However, this becomes highly problematic when increasing volumes of Chilean imports depress prices yet Alaskan costs of production remain far higher than those experienced by Chilean salmon farmers and processors for the reasons stated above.

2001 Season

The 2001 salmon season brought a decline in value to every Alaska fishing region. The season was highlighted by several labor disputes including two prolonged strikes that cost participants millions of dollars. These strikes occurred in Chignik and the Alaska Peninsula fisheries. While the harvesters in Bristol Bay did not strike, the price for sockeye was at \$.40, down from \$.64/lb the year before. In all, the ex-vessel earnings for the Bristol Bay fleet were estimated at \$40 million dollars. This was far below 1997 and 1998 numbers, at \$66 and \$71 million, respectively, when the region faced disastrously low runs.

2001 total salmon ex-vessel value earnings were estimated at \$216 million. That equals a 21% drop in revenues, down from \$275 million. While total sockeye harvests were down 18%, total sockeye earnings were down 38%, thus reflecting the inelasticity of sockeye salmon. Only chums, with a particularly strong roe market, brought an increase in price.

Figure 6 provides a review of three salmon fisheries that appear to be extremely vulnerable after 2001. In each of these regions, Governor Tony Knowles issued a disaster declaration. The economic return to region residents from these fisheries, particularly the Bristol Bay region, approached the point of no profitability. If the downward trend in price continues and is exacerbated by declining run strength that pushes strong harvest rates out of reach, it is likely Alaska will witness massive “market driven” layoffs of the salmon fleets and processing workforce.

What's in Store for 2002

2001 was particularly difficult for the salmon industry. It appears 2002 will be significantly worse. Early winter discussions suggest that processors up and down the coast will be downsizing fleets dramatically. In December 2001, farmed salmon fillet prices remain at just under \$2/lb for fresh, boneless fillets, FOB Seattle, a decrease of almost \$1 from just a year prior. Early season prices for Bristol Bay sockeye are rumored at \$.40/lb down to \$.25/lb. The economic crisis stemming from this low price is further exacerbated with a run projection of 9.5 million fish. That number of fish is significantly less than 1997, the year of the first natural disaster.

Governor Tony Knowles' declaration of many regions in Western Alaska as an economic disaster in 2001 should serve as a warning of things to come. If the salmon industry maintains status quo, the effect on harvesters, coastal residents and fishing communities will equate to a massive economic upheaval. In the Bristol Bay region, earnings to the fleet may fall from \$38 million to \$25 million (assuming prices hold at \$0.40/lb). It is unlikely there will be anywhere near that value obtained given that most fishers, particularly the non-local fishing population, will not breakeven and therefore cannot afford to travel. Local governments will find their tax base cut dramatically and be unable to provide basic services.

Action Plan

As we approach the 2002 salmon season, several circles of industry are talking about short- and long-term solutions to the changing market. The solutions may be cast along two themes: 1.) reducing the cost of operations; and 2.) increasing the market value of the final products. In regards to reducing costs,

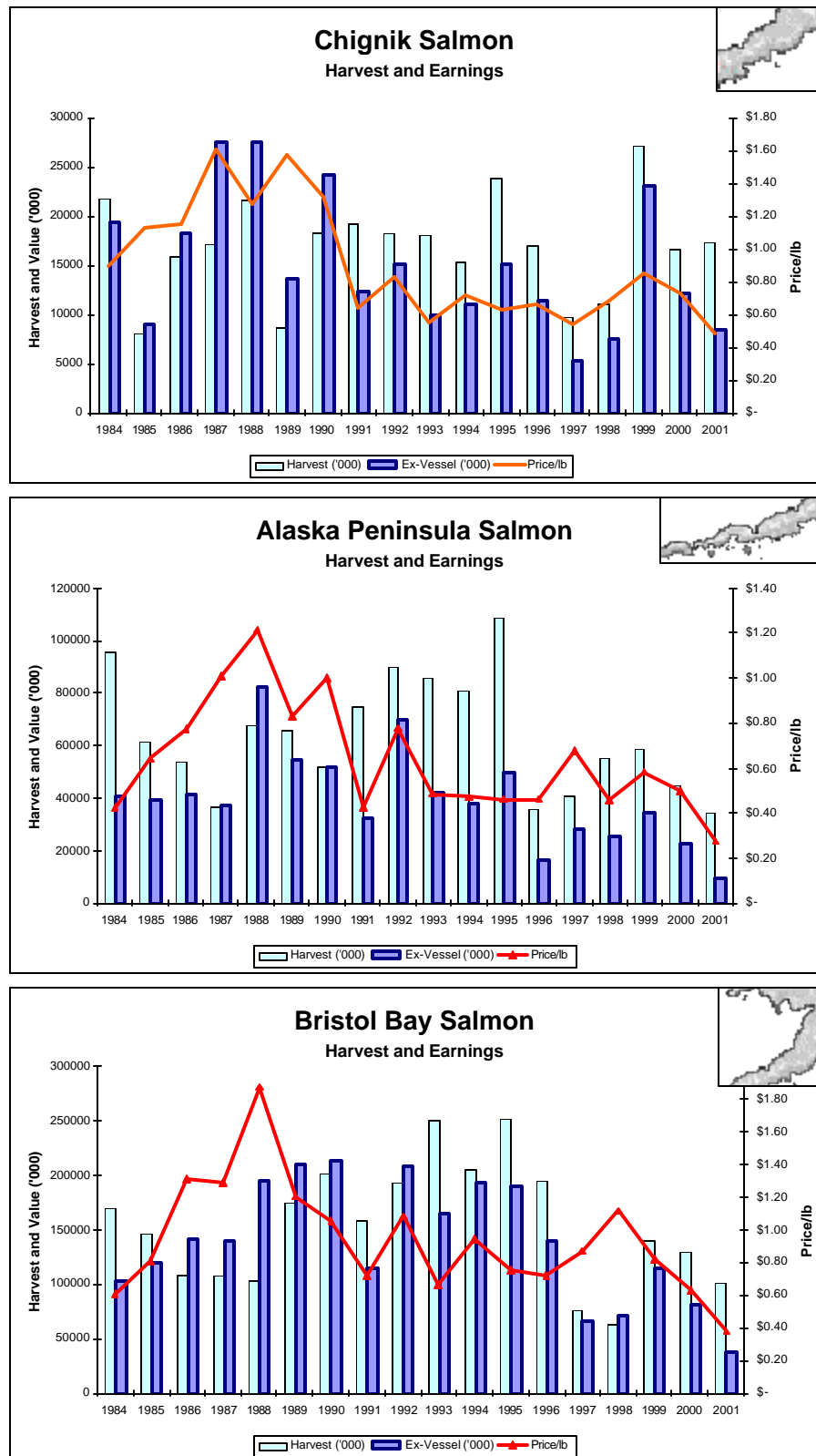


Figure 6

harvesters are looking at fleet consolidation options. Plans under review include buy-backs, stacking permits, and cooperatives. Other cost saving efforts might include more efficient processing facilities, cheaper inputs, and freight improvements. Discussions surrounding increasing the market value of salmon include increasing quality standards, more marketing funds, and consumer education.

The state is taking an active role in assisting the industry during these discussions. The Lieutenant Governor's Office, the Department of Fish & Game, Commercial Fisheries Entry Commission, the Department of Community & Economic Development, the Alaska Seafood Marketing Institute and other agencies are contributing to the discussion. In developing its action plan, the state has recognized several important aspects to improving the salmon industry.

- The State may serve as a facilitator and information provider,
- Quality is a top priority,
- Many forms of marketing are warranted,
- Solutions to problems must consider regional differences, and
- The Board of Fisheries is a vital part in the implementing of solutions.

Board of Fisheries Role in Salmon Industry Revitalization

The Board of Fisheries is a critical component of any positive effort to revitalize the Alaska salmon industry. As regions come to the Board with cost saving proposals, such as the Chignik Cooperative proposal #105, it is important for the Board to thoroughly examine these potential solutions. With any proposal there will be adverse impacts felt to indirect participants. Similarly, it may not be within the Board's statutory authority to adopt some of the proposals that will be brought for review. Nonetheless, in the event that a proposal has appropriate support from the region and participants, and adequate safeguards can be developed for indirect impacts, it is critical for the Board to give serious attention and care.

Absent action on many fronts, the Alaska salmon industry and many coastal economies will fall victim to the declining value of salmon. This is occurring in Western Alaska, the Alaska Peninsula and Chignik. The Board of Fisheries is in position to develop fair and manageable solutions to support cost saving efforts. The Department of Community and Economic Development stands ready to assist the Board in fulfilling this important mission.

Chignik Cooperative Proposal #105

Proposal #105 seeks authority to organize a cooperative of participating fishermen for Area L and receive a pro rata share of the total harvest in the area. There are important benefits from developing a cooperative. Primarily a cooperative will incur less operating expenses and improve the quality of the fish. It is possible the proposal will have indirect impacts on neighboring fishing regions. While the Board considers those impacts, it is our hope they will not be insurmountable.

A Chignik cooperative may be a very effective tool to improve the profitability of that fishery. With vertical participation by processors, it will be possible to implement a certified quality control program and develop a regional marketing plan. A slower harvest effort can be married to high-value added processing. With careful attention, the Chignik sockeye salmon can find greater value in the market.

Without the cooperative, the harvesters will face the same system currently before them. Referring back to the previous discussion of the impact price had on Chignik in 2001, little

has changed to support the notion that the fishermen will receive a higher price. The harvester strike of 2001 may be repeated, putting further stress on the industry participants and communities.

On behalf of the Department of Community and Economic Development, I want to thank you for your attention in this matter. We stand ready to work with industry, agencies and the Board of Fisheries, as we all work through the challenges that lay before us. If you have any questions regarding the information in this report, or are interested in other related information, please do not hesitate to call me at (907) 465-5464.

Sincerely,

Glenn Haight
Fisheries Development Specialist

cc: Diana Cote, Executive Director, Board of Fisheries
Jeff Bush, Deputy Commissioner, DCED
Doug Mecum, Director, Division of Commercial Fisheries/ADF&G

